

Message Text

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ACTION EUR-25

INFO OCT-01 ADP-00 TRSE-00 FBO-01 EB-11 OMB-01 ABF-01

OPR-02 SS-15 CIAE-00 INR-10 NSAE-00 RSC-01 INRE-00

SSO-00 L-03 EURE-00 RSR-01 /072 W
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O R 211356 Z JUN 73

FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC NIACT IMMEDIATE 9796

INFO USDOC WASHDC NIACT IMMEDIATE

AMEMBASSY VIENNA

C O N F I D E N T I A L MOSCOW 7313

E. O. 11652: GDS

TAGS: AFSP ETRD ABLD UR

SUBJ: NEW COMMERCIAL PROPERTY

VIENNA FOR FSO LEWIS W. BOWDEN

REF: STATE 120898

SUMMARY: I MET WITH FIRYUBIN AND UPDK DIRECTOR IVANOV THIS MORNING TO DISCUSS TERMS OF LEASE FOR NEW COMMERCIAL PROPERTY. AFTER LENGTHY NEGOTIATIONS FIRYUBIN AND I SIGNED STANDARD UPDK LEASE AGREEMENT ON AD REFERENDUM BASIS, PENDING CONFIRMATION FROM WASHINGTON THAT TERMS AND CONDITIONS ACCEPTABLE. AGREEMENT PROVIDES FOR ANNUAL RENT OF 20,000 RUBLES, OR 26.67 RUBLES PER SQUARE METER. HOWEVER, FIRYUBIN STATED THIS FIGURE INCLUDES COST OF HEATING PROPERTY (EST. 6,100 RUBLES ANNUALLY), WHICH MAKES ANNUAL RENT FOR SPACE ALONE 18.50 RUBLES PER SQUARE METER. LEASE IS FOR THREE- YEAR PERIOD, WITH RENEWAL CLAUSE FOR ADDITIONAL THREE YEARS ON MUTUALLY- AGREEABLE TERMS. FIRYUBIN GAVE ORAL GUARANTEE THAT PRICE WOULD NOT BE INCREASED AFTER INITIAL THREE- YEAR PERIOD. EFFECTIVE DATE OF AGREEMENT IS JULY 1, 1973. END SUMMARY.

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1. FIRYUBIN OPENED BY STATING GENERAL SOVIET ADHERENCE TO PRINCIPLE OF RECIPROCITY ON RENTS, NOTING UPDK HAS LEASE AGREEMENTS WITH SOME 400 FOREIGN ESTABLISHMENTS ON THIS BASIS. I REITERATED OUR POSITION THAT PRINCIPLE OF RECIPROCITY IN THIS CASE IS UNACCEPTABLE AND HAD BEEN REJECTED BY US BOTH IN MOSCOW AND WASHINGTON, BUT THAT WE WERE READY AT THIS MOMENT TO CONCLUDE LEASE BASED ON GOING RATE IN MOSCOW.

2. FIRYUBIN THEN STATED SOVIETS WOULD NOT NOT RPT NGZ INSIST ON PRINCIPLE OF RECIPROCITY, AND THAT THEY WOULD FORGET WHAT THEY PAY FOR KAMA PURCHASING COMMISSION IN NEW YORK. BUT, HE CONTINUED, IF PRINCIPLE OF RECIPROCITY ABANDONED, US SHOULD PAY WHAT OTHERS PAY IN MOSCOW. ON THIS BASIS, RENT FOR PROPERTY AFFERED TO US WOULD BE 25,000 RUBLES PER ANNUM OR 35 RUBLES PER SQUARE METER. (FYI: ACTUAL FIGUE WOULD BE 33.33 RUBLES ON BASIS OF 750 SQUARE METERS. END FYI) HE STATED THIS ANNUAL AMOUNT INCLUDED BOTH HEATING AND UPKEEP, AND THAT HEATING ALONE ACCOUNTED FOR 6,100 RUBLES. FIRYUBIN COMMENTED EMBASSY NOW PAYING ABOUT FIVE RUBLES PER SQUARE METER FOR EMBASSY AND SPASO HOUSE PROPERTIES AND THREE RUBLES PER SQUARE METE FOR DACHA, BUT THAT THESE AMOUNTS POSSIBLE ONLY BACAUSE OF 25- YEAR LEASE AND ARE " SYMBOLIC" ONLY.

3. I REPLIED THAT TO BEST OUR KNOWLEDGE HIGHEST RENT PAID FOR COMMERCIAL PROPERTY IN MOSCOW WAS 20 RUBLES PER SQUARE METER, AND THAT WE WOULD BE WILLING TO PAY THIS AMOUNT. FIRYUBIN THEN PRODUCED COPIES OF UPDK LEASE AGREEMTNS SHOWING THAT WHILE BRITISH PAY 20 RUBLES PER SQUARE METER, FRENCH PAY 28 RUBLES FOR FRANCO- SOVIET CHAMBER OF COMMERCE PREMISES, AND ITALIANS PAY 30 RUBLES FOR ENI OFFICE. HE ALSO NOTED THAT IN BOTH BRITISH AND FRENCH CASES BUILDINGS ARE OLD, WHILE PROPERTY OFFERED US IS NOT ONLY IN PRIME LOCATION BUT COMPLETELY NEW. I REPLIED THAT RENT OF 25,000 RUBLES ANNUALLY, OR OVER 30 RUBLES PER SQUARE METER, NOT ACCEPTABLE.

4. FIRYUBIN THEN COUNTERED WITH OFFER OF 30 RUBLES PER SQUARE METER AND, WHEN I REJECTED THIS, DROPPED TO 28 RUBLES. SINCE RENT INCLUDES COST OF HEATING I PROPOSED 27.50 RUBLES PER SQUARE METER, OR ANNUAL RENT OF 20,625 RUBLES. AT
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IVANOV' S SUGGESTION FIRYUBIN THEN PROPOSED RENT BE ROUNDED OFF TO 20,000 TO WHICH I AGREED ON CONDITION THAT LEASE BE SIGNED ON AD REFERENDUM BASIS SINCE THIS AMOUNT STILL EXCEEDED FIGURE I WAS AUTHORIZED TO ACCEPT.

5. WHEN I ASKED THAT LEASE BE FOR PERIOD OF FIVE YEARS FIRYUBIN REPLIED THAT THREE YEARS WAS MAXIMUM PERMITTED

UNDER SOVIET LAW. HE SAID THAT TO LEASE FOR LONGER PERIOD
WOULD REQUIRE APPROVAL AT " HIGH" GOVERNMENT LEVEL; THEREFORE,
EXPEDIENCY WOULD PRECLUDE THIS POSSIBILITY. WE THEN
AGREED TO AGREEMENT FOR THREE YEARS WITH FOLLOWING CLAUSE:
" THE LEASE OF THE SAID PROPERTY MAY BE EXTENDED AT THE OPTION OF
THE PARTIES FOR THE FOLLOWING THREE YEARS ON MUTUALLY- AGREEABLE TERMS
TERMS."

6. I BELIEVE LEASE AGREEMENT AS CONCLUDED IS SATISFACTORY,
GIVEN IDEAL LOCATION, NEWNESS AND HIGH VISIBILITY POSSIBILITIES.
THREE- YEAR LEASE TERM WITH OPTION TO RENEW FOR ADDITIONAL THREE
YEARS IS ALSO BETTER THAN PRESENT ONE- YEAR LEASES HELD BY MOST
OTHER MISSIONS. WITH INCLUSION OF HEATING WHICH WE HAD NOT
PREVIOUSLY CONSIDERED, EFFECTIVE RENT IS ACTUALLY 18.50 RUBLES
PER SQUARE METER PER ANNUM. HOWEVER, AGREEMENT WAS CONCLUDED ON AD
REFERENCUM BASIS AND IF CONDITIONS ABOVE NOT SATISFACTORY WE
STILL HAVE TIME TO GO BACK TO FIRYUBIN FIRST THING FRIDAY MORNING,
JUNE 22. PLEASE ADVISE BY IMMEDIATE CABLE.
DUBS

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